DOSSIER

TRANSATLANTIC TRADE: A PRIMER TO TTIP

MARAREK WĄSIŃSKI *Analyst for European Affairs*

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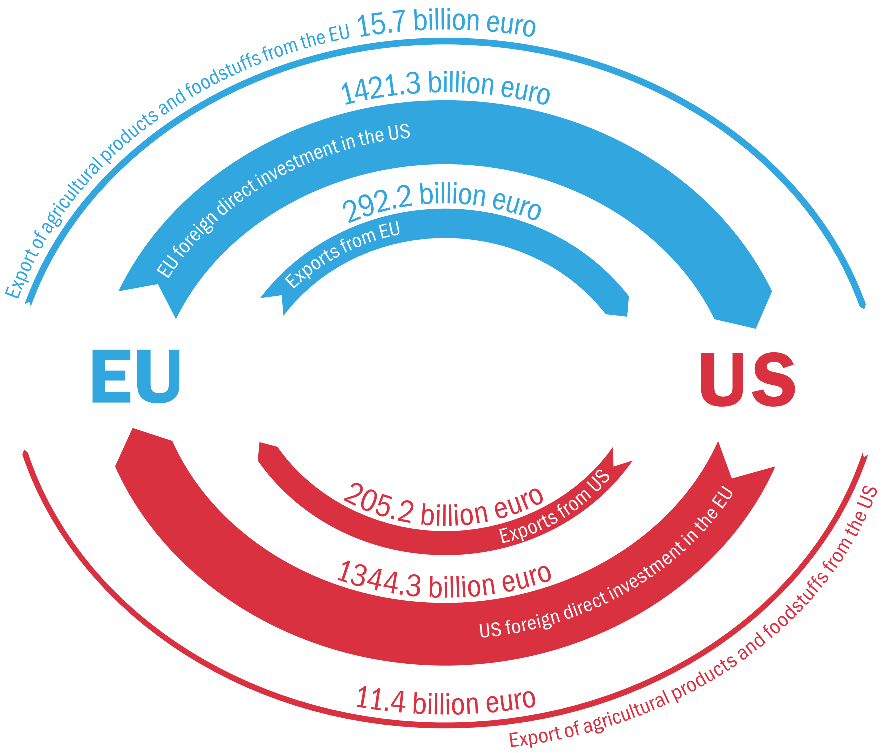
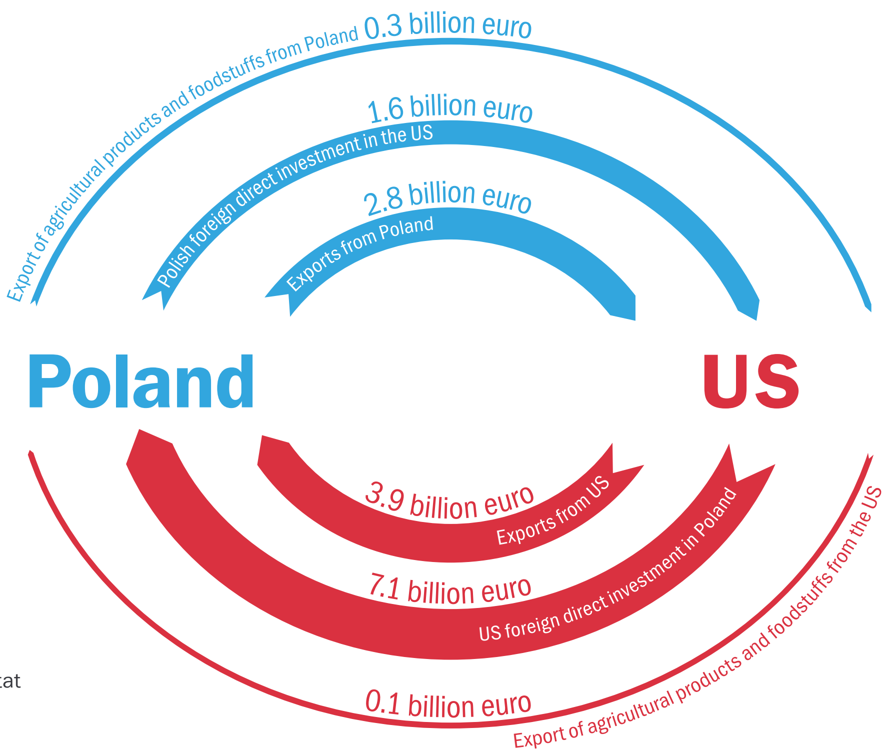
POLITYKA INSIGHT

How EU and Poland trade with the USA?

Total trade between US and the EU in 2012 amounted to 0.5 trillion euros, direct investments reached 2.5 trillion euros. US-Polish exchange amounts to just little above 1 per cent., of total transatlantic trade.





Source: GUS, NBP, Eurostat

What is TTIP?

The agreement between European Union and the United States would create the biggest free trade area in the world. Brussels would like to end negotiations within two years.

TIMELINE

18 June 2013
Formal start of negotiations between the US and the EU

8-12 July 2013
First round of TTIP negotiations in Washington

11-15 November 2013
Second negotiating round in Brussels

16-20 December 2013
Third negotiating round in Washington

The largest global trade agreement. Transatlantic Trade and Investment Partnership - TTIP is a trade agreement between the two largest economies in the world. The EU and the US account together for about half of the world's GDP and for nearly a third of world trade flows. TTIP, if concluded, would abolish all customs duties between America and Europe, as well as non-tariff barriers (the differences in the standards of certain products and services that effectively limit transatlantic trade). If the agreement is comprehensive, it will establish de facto global standards for trade. Negotiations have been opened in June 2013, since then three rounds of talks were held.

Difficult beginning of the negotiations. The condition of opening the talks on TTIP was granting the EurCom the negotiating mandate by all the EU members states. It was not obvious, because France, which cherishes its cultural identity, demanded the exclusion of this sector from the talks. Paris was afraid that US, which dominates on the global market of the production and distribution of films, music and games, could lead to the collapse of the audiovisual sector in Europe. Eventually EU trade ministers agreed to Paris' request, but wrote into the mandate a provision that the EurCom can return to this point in the course of negotiations.

An agreement not before 2015. Brussels wants to finalize negotiations under the current EurCom, i.e. before October 2014, although the result of the negotiations will, in any case, have to be approved by the newly-elected EurParl. Similarly, in the US, the Congress will have to approve the agreement. On the behalf of the EU, the Trade Commissioner Karel De Gucht is responsible for the negotiations. His counterpart on the US side is trade representative and counsel to the president Michael Froman.

Agriculture will be a point of contention, but ACTA is not expected to return. The most contentious issues are sanitary standards of meat imported from the U.S., GM products and subsidies for farming. The talks will also deal with the protection of intellectual property, similarly to ACTA, but the question of penal sanctions (which was the most controversial issue) is going to be excluded from the talks. Unlike during the trade negotiations with Korea and Japan, the car industry is in favour of the agreement: European producers are not afraid of cheaper cars from the U.S.

Poland will benefit mainly indirectly. U.S. is not among the ten-largest Polish trade partners, but is a seventh-largest investor. The export of Polish goods to the US makes up 2 per cent of total exports, but when added-value is concerned 5 per cent of Polish exports end up in the United States – mainly as subproducts of German export. This is why the increase in trade volumes between the EU and the US, especially with Germany would, in turn, increase Polish exports.

How the EU and the US negotiate?

During the first three rounds both sides defined the scope of the future agreement. Actual negotiations will begin in March. In the end the agreement will have to be ratified by all EU member states.

WHAT'S NEXT

17-18 February 2014
Karl De Gucht and Michael Froman will sum-up the current state of negotiations

10-14 March 2014
fourth negotiating round in Brussels

May, July, October, December 2014
tentative dates of upcoming negotiating rounds

30 October 2014
term of office of current European Commission ends

The agreement covers all aspects of the economy. The negotiations will concern three main areas: • companies' access to the market - abolition of tariffs, opening up the services market, protection of investments and access to public procurement; • abolition of non-tariff barriers - concerning the differences in the standards of products and certification processes such as those of car safety or phyto-sanitary norms; • the rules of global trade - the EU and the US want to agree common positions on multilateral trade agreements within the framework of the WTO.

Both sides have appointed chief negotiators. The EU will be represented by a director in DG Trade of the EurCom, Ignacio García Bercero, the US by Assistant US Trade Representative for Europe and the Middle East at the Office of the US Trade Representative, Dan Mullaney. When political intervention will be needed, the commissioner for Trade Karel de Gucht will talk directly with US Trade Representative Michael Froman. Neither the EU capitals nor EurParl will be directly involved in negotiations.

Negotiations will be conducted mostly by expert groups. The aim of the first round of negotiations was to define the scope of the agreement. Both delegations said what they want to achieve and where are the red lines which they will not cross. On this basis, an operating mode will be agreed for groups negotiating particular chapters, such as public procurement, investments, energy or product safety requirements. These groups comprise both sides' experts in various areas of negotiations.

Inter-sectoral bargaining comes last. The subsequent rounds of negotiations will concern particular chapters of the agreement. First on the agenda are the least problematic areas, the most controversial come last. The two sides will calculate the gains and losses resulting from the compromises reached in various areas as they go. Only in the final rounds, if reaching a common position within a chapter is impossible, will inter-sectoral bargaining start. Its role is to balance out the gains and losses of the agreement as a whole.

All EU member states will have to approve the agreement. TTIP exceeds those aspects of free trade in which the EU has exclusive competences, because it covers also the products' standards. Therefore, the agreement will need to be ratified in each of the 28 EU member states. In some, such as France, it may be the subject of a heated debate. In the US, the agreement will need to be ratified by Congress and there the result is not certain either: the interests of their home state often matter more to senators than those of the country as a whole. Free trade agreements with Columbia or Panama entered into force five years after the finalization of the negotiations due to the lack of the Congress' consent.

What are the key subjects of dispute?

Common standards, public procurement, arbitrage, agriculture – these will be the most difficult subjects. EU aims to protect the audio-visual sector, while maritime transport will be important for the US.

BENEFITS FROM TTIP

Change in GDP (per cent, yearly)

USA	EU
+0.3	+0.55

Change in exports (per cent, yearly)

USA	EU
+5.8	+2

Change in imports (per cent, yearly)

USA	EU
+3.8	+2

Source: Centre for Economic Policy Research

The most difficult talks will concern common standards. For twenty years the EU and the US have been discussing, without success, the unification or mutual recognition of products' standards - such as the safety of chemicals. Negotiators will have to define in each sector which e.g. safety certificates or emission standards will be mutually recognised. If within the TTIP, both parties were able to lift half of the existing non-tariff barriers, transatlantic trade could increase by as much as USD 150 billion. This would have the greatest benefit in the car, chemical, cosmetic, food and electronic appliances sector.

US will seek to open the EU market to GMO. High tariffs still apply in the trade of agricultural products - an average of 13 per cent on EU products in the US and 48 per cent on American products in the EU. Manufacturers on both (highly subsidized) markets fear the admission of competition from the other side of the Atlantic. In addition, Washington will seek to open the European market to GMO food, meat treated with chlorine-based compounds or produced with the use of hormones. Brussels does not want to lower safety standards, but reaching an agreement may require concessions from the EU. And consumer organizations are afraid of them.

The EU wants access to US public procurement. The US has the Buy American Act, which obliges the administration to prefer products and services from US suppliers during public procurement. In the course of the negotiations with the WTO, several US government agencies were excluded from this act, but most are still subject to it. Access to American public procurement is in the interest of Brussels. According to the EurCom, the liberalization of this market will increase the EU's GDP by 0.02 per cent, but the US will make concessions only for a high price.

Audio-visual sector versus maritime transportation. At the request of Paris, which protects its film industry, the transatlantic trade negotiations do not include audio-visual services and products. The price for the exclusion of the sector will probably be maintaining restrictions on the access to the US maritime transport market. At the moment, neither EU vessels, nor even those under the American flag and built in the EU, can provide transport services in the US. The EurCom very much wants to lift this ban, and that is why Brussels may still try to include the audio-visual sector in the negotiations.

State-investor arbitration. The Americans want to enter into the ISDS clause deal *(investor–-state dispute settlement),* which allows investors to bring an action against states in international arbitration. If the arbitration tribunal considers the legal changes as discriminatory to an investor, it may oblige the administration to pay high compensation - for example, the American company Lone Pine Resources Inc. demands USD 250 million from the Canadian government as compensation for the ban on hydraulic fracturing. European negotiators do not have any legal solutions to propose, but they do not want to comply with American ones.

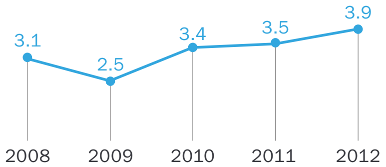
What hampers Polish business in the US?

Entry barriers are the biggest problem for Polish companies in the US. TTIP is not going to trigger a rapid rise in Polish investments. Polish exports will benefit most, albeit indirectly.

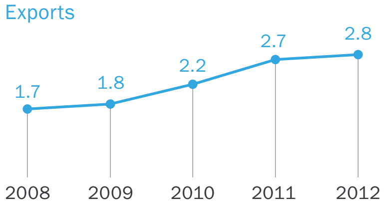
TRADE BETWEEN US AND POLAND

billion euro

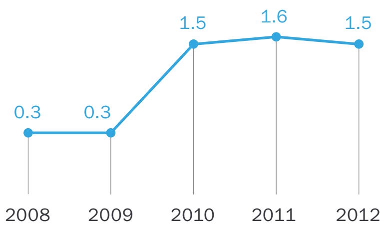
Imports



Exports



Polish investment in US



Source: GUS, NBP

Investments and exports grow. US-Polish trade relations are very limited - Poland is not even listed among the US' top thirty trade partners. According to NBP data, at the end of 2011, Polish investments in the US amounted to USD 2.1 billion. However, rising involvement of Polish companies can already be seen - since 2008, investments increased five-fold; while in 2008-2012, exports to the US rose by 46 per cent.

Large companies, small representative offices. Large companies that employ more than 250 people are the ones that enter the US market. Most of them establish small representative offices, with up to 10 employees. Investments in IT and electronics (Comarch, Asseco, Platige Image), furniture (Com.40), cosmetics and pharmaceuticals (Inglot, Eris, Pharmena) grow at the fastest rate. Last year, KGHM, after taking over Canadian company Quadra Mining, became the owner of two US copper mines.

Europe first, America next. It takes time for Polish companies to decide to invest or to trade with the US and when they do, they face strong entry barriers. Overseas investments are costly, many sectors are saturated, the distance between Poland and the US means high cargo transportation costs and entering a highly developed market is risky. During trade and investment cooperation, entrepreneurs face other types of barriers:

- **customs duties, taxes and fees** - the average customs duty rate valid for the EU-US trade is at 3.5 per cent; the highest relate to the food sector - for dairy products, confectionery, tobacco and beverages, but also for imported clothing. According to a report by the American Chamber of Commerce in Poland, zero tariffs will reduce the costs of US-Polish trade by USD 130-150 million and will generate USD 400-500 million of new revenue.
- **administrative requirements** - non-tariff barriers are the biggest obstacle for European companies. According to AmCham, they generate 60-80 per cent of additional costs which include legal help, certificates and adjusting products to US norms and standards. Europe and the US have different sanitary and phytosanitary regulations; Americans do not recognize EU certificates of origin.
- **access to public procurements** - non-US companies have limited access to US governmental procurements. The Buy American clause allows preferential treatment for domestic companies.
- **visas** - the visa requirement is a particular impediment for Polish entrepreneurs. When already in the States, the need to get permits to employ Polish personnel - another difficulty, which also, due to legal fees, generates additional costs.

Will Poland benefit from TTIP?

A CEPR study shows that Poland will benefit from the transatlantic trade agreement. Removal of half of non-tariff barriers would increase the GDP of Poland by 0.2 per cent per year.

WHICH SECTORS WILL BENEFIT MOST

(change in exports in per cent)

Electrical machinery:

+16.9

Finance:

+1.9

Other machinery:

+1.7

Processed foods:

+1.6

WHICH SECTORS WILL LOSE MOST

(change in exports in per cent)

Chemicals:

–5

Motor vehicles:

–1.1

Other manufactures:

–0.5

Personal services:

–0.4

Source: Centre for Economic Policy Research

Non-tariff barriers are the biggest trade obstacle with the US. According to experts from the Centre for Economic Policy Research, customs duties constitute only 1.29 per cent of the value of Polish exports to the US. That is why their limitation alone would not, in practice, affect the Polish economy. Other barriers play a more significant role – for example, the cost of obtaining certificates or adapting products to US standards. They constitute 7.17 per cent of the value of Polish companies' sales to the US.

The Polish GDP will grow on average 0.2 GDP per cent annually. Assuming that the EU-US trade agreement will result in limiting non-tariff barriers by 50 per cent, the Polish economy will grow by additional USD 1,66 billion every year until 2027. Limiting barriers on the sale of goods, and not necessarily services, would be crucial for this scenario to materialize. Polish exports to all countries would increase by USD 3.2 billion (1.21 per cent) and imports by USD 3.6 billion (1.05 per cent) over this period.

The electronic equipment sector will benefit the most. By 2027, production in this sector and its exports will increase by 17 per cent (sales to the US alone will double). As a result, employment in the sector will increase by 15 per cent. It will affect wages, which will increase by 0.31 per cent in the whole economy. The other sectors, which may benefit considerably from the liberalization of trade with the US, include: the food industry, financial services and the production of machinery (exports increased by 1.5-2 per cent).

The chemical industry will lose most. By 2027, the agreement will lead to reducing the export from this sector by 5 per cent. Similarly - by 4.5 per cent – will fall employment and production in the chemical sector. However, sales to the US alone will increase by 60 percent. The agreement may also negatively affect the exports of motor vehicles, other manufactures and personal services (down by 0.5-1.1 per cent).

TTIP will increase Polish trade with other EU countries. If the agreement is signed, it will increase the turnover of trade between the US and the EU, but at the same time will have a negative impact on trade between EU member states. Poland is the exception here: TTIP is to increase the country's trade with the US and other EU countries. By 2027, exports to the US are to increase by 58 per cent - and by 19 per cent to EU countries. Currently, trade between Poland and the US remains at a low level – in 2012, Poland exported goods worth USD 3.6 billion and imported goods worth USD 5 billion.

Author

Marek Wąsiński
Analyst for European Affairs
tel. (+48 22) 436 73 12
m.wasinski@politykainsight.pl

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Polityka Insight
Słupecka 6, 02-309 Warsaw, Poland
tel. (+48 22) 456 87 77
www.politykainsight.pl/en